As I see it

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NOTHING BUT I O U'S IN THE TILL

IT is now almost 20 years since the bank collapse in 1933 and the beginning of the New Deal philosophy of government. During the first part of this period every effort was made by the government planners to "prime the pump," but with indifferent success until the rearmament of World War II restored a high level of economic activity.

The economic planners have always placed high on the agenda of social aims what they designate as social security. They have given lip service to the idea that one of the great responsibilities of government was to level out the economic cycle, avoiding both booms and depressions. They inveigled Congress in 1946 into passing legislation putting the full power of government behind a full employment program and virtually making depressions and unemployment illegal.

Many government bureaus have been originated, the primary purpose of which is to stabilize the economic situation, such as the Federal Deposit Insurance Corporation, which presumably guarantees to the public that any bank joining in its program has been guaranteed by the government, and that a depositor will be assured of the safety of his deposits.

The Federal Deposit Insurance Corporation has collected from the banks which have joined in its plan, one billion three hundred and fifty-three million dollars as insurance reserves to take care of losses in the next period of financial stress.

The Federal Savings and Loan Insurance Corporation was formed to insure the deposits of savings and loan associations throughout the country, and this agency has collected two hundred and one million dollars as a reserve fund to take care of savings and loan depositors should there be a general collapse.

Through unemployment insurance, employers and employees have paid into the Unemployment Trust Fund a reserve of eight billion five hundred and twenty-six million dollars, and through Social Security payroll deductions they have paid into the Federal Old-Age and Survivors Insurance Trust Fund fifteen billion five hundred and forty million dollars. The veterans of the United States have paid into the National Service Life Insurance Fund a net amount for reserves now equal to

five billion two hundred and eight million dollars. The railroads and railroad employees have paid into the Railroad Retirement Account two billion six hundred and ninety-four million dollars for reserves. The home owners of the United States have paid four hundred and twelve million dollars into the Federal Housing Administration toward insurance reserves.

The presence of these tremendous reserves, totaling practically thirty-four billion dollars, has frequently been cited as a reason why a depression in the United States would not be able to make much headway and would be relatively mild and short-lived. I have heard this argument advanced by many people in many parts of the United States. Since I have felt for some time that the present boom in both business and real estate is nearing its end, I am particularly interested in testing the soundness of this argument. Can these agencies either prevent or ameliorate a depression?

I will admit that, psychologically, they may have some stabilizing effect in the initial phase of a depression. The nonexistent bank account in I Remember Mama gave confidence and assurance to her children. So long as we believe that a bank is sound, no one wishes to withdraw deposits. There has been another advantage to some of these programs which might have some value in ameliorating a depression. The Federal Deposit Insurance Corporation and the Federal Savings and Loan Insurance Corporation through their audits have insisted that smaller institutions which they insure be in a relatively sound position.

The national income for 1951 was two hundred and seventy-six billion dollars. National income in the United States has fluctuated from year to year, going up in inflationary periods and dropping during depressions. In the single year from 1931 to 1932 the national income fell 29.2%. The total reserves listed in the trust funds enumerated in this bulletin amount to only 12.3% of our national income. In the drop which we experienced from 1929 to 1933, national income decreased by 54.7%. Should a real depression develop in the United States, it is my opinion that we would find these reserves insufficient to prevent a collapse.

The greatest difficulty, however, in these reserves as a hedge against depression is that they do not exist. The money for these reserves has been collected from the citizens of the United States by the various agencies involved, and has been turned over by them to the United States Treasury in exchange for I O U's in the form of government bonds. The Treasury has spent the money, together with the money collected in taxes, for every conceivable purpose, including grants to practically all countries that could offer any excuse for wanting the money, and to some that couldn't. Out of the approximately thirty-four billion dollars which is supposedly in these trust funds, 97.5%, or more than thirty-three billion dollars, has been spent by the government, and is present in these reserves only in the form of I O U's or government bonds.

How can these reserves be withdrawn in case they are needed to prevent a depression or, putting it in a simpler manner, how can you recover money which

has already been spent? There are only two ways in which these reserves can be made available for the purpose for which they were accumulated:

1. The Federal government would have to redeem its bonds which are now in these reserve accounts. How could this be done? The only source of revenue which the Federal government has each year is the amount which it collects from the taxpayers and the amount it can raise by selling government bonds. If a depression starts, however, corporation incomes as well as the incomes of individuals will drop, and even though our present oppressive tax rates should be maintained during a depression, the amount of taxes which would result from the lowered incomes would be materially less than the amounts the government has been spending during the boom when there was no burden of relief. If a depression starts, it will also be more difficult to sell government bonds. They could not be sold to the public in sufficient quantities to take care of the funding of present issues as they mature, much less to take care of additional money requirements. During the next ten years maturities on United States savings bonds alone will require fifty-seven billion dollars.

2. If the Federal government cannot redeem its I O U's in these various trust accounts by selling bonds to individuals or by diverting tax funds for that purpose, the only avenue still open is the one of currency and credit manipulation. This can be accomplished either through selling bonds to the commercial banks or, in a more honest manner, by printing greenbacks. The effects of both are the same. An additional currency and credit inflation on top of the tremendous inflation we have already experienced would shrink the actual values of all savings accounts, bank balances, life insurance reserves, and other assets of this type to a very small fraction of their value in the pre-New Deal era. Few people realize that the American dollar has already deteriorated to the point where it will buy one-third less in goods and services than a greenback would buy at the height of the Greenback Inflation in 1865. A further monetary inflation of this sort when economic conditions are worsening would have the effect of deterring private capital expenditures and would deepen the depression. The experiences of Germany and France have taught us that the inflation of the currency to prevent collapse results in rapidly rising prices without prosperity.

The only ways in which reserves could be accumulated by national trust funds would be:

1. To use the sums accumulated in these funds to reduce the national debt with the idea that the lowered debt would make possible an increase in debt whenever the trust funds were needed. This would have some of the same disadvantages listed above, in that the only way in which the debt could be increased would be by the sale of government bonds in an unfavorable market.

2. The money accumulated in national trust funds could be invested in nationally-owned public utilities and other public income-producing projects. There are two difficulties with this, however, the first being that most government

projects have been so costly in comparison with similar private projects that they have not been worth as investments what they cost to build; and the second being that the constant investment of the Federal government in additional public utilities would increase the socialistic trends already too far advanced in this country.

3. The third way in which reserves could be accumulated by national trust funds would be to invest these funds in the securities of private industry but, again, this would result in a relatively short time in government ownership and control of many private corporations, and would hasten the decline of the free enterprise system in the United States.

It seems to me that we might just as well face the fact that reserve funds cannot be accumulated by government agencies with safety, and that, in the last analysis, all expenditures each year must be made out of current income.

There are tools which could be used to prevent or to mitigate depressions but, unfortunately, we have been so busy using these tools to heighten our boom, that they are practically worn down to the handles. All economists would agree that easy credit, with low interest rates, is one means of shortening a depression, and that severe credit restrictions, with high interest rates, should be imposed to lessen the booms. During the past 20 years an easy money policy has been followed consistently by the government in an effort to keep the carrying cost low on the tremendous government debt, and the United States Treasury has fought the Federal Reserve in all efforts to tighten credit and to raise interest rates to halt inflation. Only in the recent past has the Federal Reserve had any success, with the result that government bonds have fallen considerably below par. The entire world has followed the will-o'-the-wisp of easy credit for such a long period that today there is no major nation which could offer a large issue of long-term bonds without a risk of a serious decline in the price of its outstanding obligations, and every central bank in the world has been forced to abandon its easy money policies.

If we have increased our public debt (Federal, State and local) by almost two hundred billion dollars during the past ten years, the biggest boom in history, how are we going to finance the next depression?

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